



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Safford Unified School District No. 1

Year Ended June 30, 2003



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 8, 2004

Governing Board
Safford Unified School District No. 1
734 11th Street
Safford, AZ 85546-2967

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Director of Support Operations in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Safford Unified School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$18 million it received in fiscal year 2003 to provide this education.

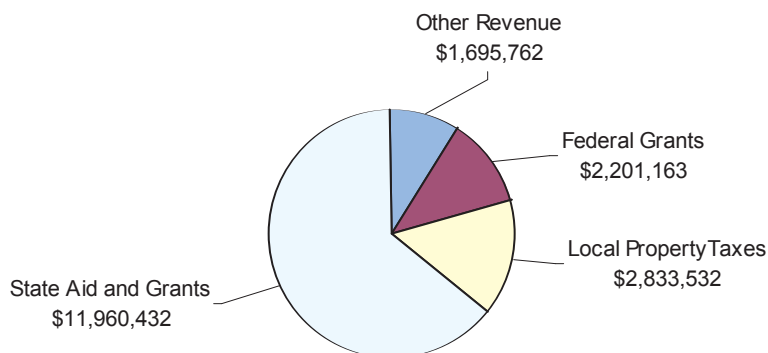
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2003

County: Graham
Number of Schools: 6

Number of Students: 2,664
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2002-2003* and *Safford Unified School District No. 1 Comprehensive Annual Financial Report for the year ended June 30, 2003*.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or USFR guidelines. Specifically, the

The District could not ensure that it received the best value for the public monies it spent.

District did not always issue invitations for bids for purchases that exceeded the competitive sealed bid threshold. In addition, when it did issue invitations for bids, the District did not always retain the invitations for bids and documentation of reasons for selecting vendors. Also, the District did not always obtain documentation from the Governing Board indicating that it should issue requests for proposals because competitive sealed bidding was not practicable or advantageous to the District. Further, the District did not always obtain oral or written price quotations for all purchases that required them and did not always select the lowest price quotations.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services that individually or in the aggregate would exceed \$32,899.
- Retain all documents necessary to demonstrate compliance with School District Procurement Rules including invitations for bids and documentation of vendor selection.
- Obtain documentation from the Governing Board that indicates issuing invitations for bids would not be practicable or advantageous to the District before it issues requests for proposals.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. Quotations should be stated in such a way as to allow the District to determine the lowest actual cost for the requested item, and not as a percentage discount. If the District selects a vendor for reasons other than lowest price, it should document its reasons fully.

School District Procurement Rules provide the requirements for competitive sealed bids and proposals.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 209.

The District should ensure the accuracy of its accounting records and expenditure budget

The District's Governing Board depends on accurate information to fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure its accounting records and budget are accurate. However, the District's accounting records and expenditure budget were not always accurate. For example, the District misclassified state revenues, federal revenues, and lease expenditures. In addition, the District did not allocate tuition revenues among its funds accurately and did not allocate interest earned on the student activities bank account to the various student clubs. Also, the District's Classroom Site Fund (CSF) budget limit did not include the correct unexpended fiscal year 2002 budget balances from the previous year. As a result, the District could not spend all of its monies available for CSF purposes.

The District's procedures were not adequate to properly classify revenues and expenditures.

Recommendations

The following procedures can help the District maintain and report accurate accounting information:

- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Allocate tuition revenues to the Maintenance and Operation, Unrestricted Capital Outlay, and Debt Service Funds according to the amounts billed to the student's district.
- Allocate interest earned on the student activities bank account on a pro rata basis to student clubs with balances. Interest earned may be deposited into the Student Council account to benefit the entire student body if all student clubs provide written consent.
- Ensure that the correct unexpended budget balances from the three Classroom Site Funds for the prior fiscal year are included in the calculation of the District's Classroom Site Fund budget limit, as required by A.R.S. §15-978

The District should strengthen controls over its expenditures

The District had deficit fund balances in the Food Service and Deficiencies Correction Funds of \$94,336 and \$274,991, respectively, at fiscal year end.

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures that help ensure that its purchases are properly approved before committing district monies. However, the District did not always follow those procedures. For example, the District did not always prepare and approve purchase orders before goods or services were ordered. In addition, the District had deficit fund balances in two funds at fiscal year end, as expenditures were made from these funds even though cash was not available.

Recommendation

To strengthen controls over its expenditures, the District should prepare and approve purchase orders for all district expenditures, except exempted items such as salaries and related costs, utilities, and in-state travel, before ordering goods and services. In addition, the employee approving purchase orders should verify that sufficient cash is available before approving expenditures from cash-controlled funds.

The District's capital assets list should be accurate and complete

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets. However, the District did not include capital assets purchased by the School Facilities Board (SFB) on behalf of the District on its capital assets list. In addition, some items on the stewardship list were at a different location than indicated on the list.

Recommendations

The following procedures can help the District improve control over its capital assets and ensure accurate and complete capital assets and stewardship lists:

- Include assets purchased by the SFB for the District on its capital assets list.
- Update the stewardship list for items acquired, disposed of, moved, or stolen at least annually.